

## Message Text

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INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 INRE-00 USIE-00

SP-02 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 L-02 H-02

DODE-00 PA-01 PRS-01 PM-03 ACDA-05 SAJ-01 SAM-01

AGR-05 /095 W

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O R 151353Z APR 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9400

INFO USMISSION OECD PARIS IMMEDIATE

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

USMISSION EC BRUSSELS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

C O N F I D E N T I A L SECTION 01 OF 03 BONN 06052

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN ECONOMIC INSTITUTES' PRELIMINARY  
THOUGHTS ON GNP GROWTH FOR 1975 AND 1976.

REF: BONN 1728, BONN 4624

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1. SUMMARY. THE LEADING GERMAN ECONOMIC RESEARCH INSTITUTES ARE PRIVATELY FORECASTING REAL GNP GROWTH OF ABOUT ONE PERCENT FOR 1975 AND AROUND 5 PERCENT OR MORE FOR 1976. WHILE THE 1975 FORECAST REPRESENTS A DOWNWARD REVISION FROM THE GOVERNMENT'S 2 PERCENT PREDICTION MADE IN JANUARY, THE 1976 FAVORABLE ECONOMIC PICTURE FORESEEN SHOULD MAKE CHANCELLOR SCHMIDT'S REELECTION A MORE READILY ATTAINABLE GOAL. END SUMMARY.

2. THE EMBASSY HAS RECENTLY CONTACTED THE FOUR LARGEST ECONOMIC RESEARCH INSTITUTES IN GERMANY (MUNICH, BERLIN, HAMBURG, AND KIEL) FOR THE PURPOSE OF OBTAINING THEIR VIEWS ON THE STATE OF THE GERMAN ECONOMY AND ITS LIKELY FUTURE DEVELOPMENT. THE EMBOFF'S VISITS CAME AT JUST THE MOMENT WHEN THE INSTITUTES WERE PREPARING THEIR FORECASTS WHICH WILL BE PRESENTED PUBLICLY AS A JOINT FORECAST APRIL 28. THE COINCIDENTAL TIMING OF THIS JOINT FORECAST PUBLICATION JUST BEFORE THE IMPORTANT MAY 4 ELECTIONS IN NORTH RHINE/WESTPHALIA HAS MADE THEM EXTREMELY POLITICALLY SENSITIVE. THE GOVERNMENT HAS REPORTEDLY BEEN TRYING TO PERSUADE THE INSTITUTES TO PRESENT AS FAVORABLE A PICTURE AS POSSIBLE. THE DATA THAT FOLLOWS, HOWEVER, REPRESENTS IN VARYING DEGREES A MORE REALISTIC VIEW THAN THAT CONTAINED IN THE GOVERNMENT'S ANNUAL ECONOMIC REPORT (SEE REFTEL) AND GIVES A PREVIEW OF THE APRIL 28 JOINT FORECAST.

3. MUNICH'S IFO INSTITUTE IS PROJECTING ZERO TO 1 PERCENT REAL GNP GROWTH FOR 1975, WITH A STRONGER POSSIBILITY TOWARD THE UPPER END OF THIS RANGE. HAMBURG HAS IN MIND A 1 PERCENT GROWTH FIGURE. BERLIN IS SLIGHTLY MORE PESSIMISTIC AND SEES 1 PERCENT GROWTH AS A MAXIMUM POSSIBILITY WITH ZERO GROWTH CLOSER TO THE REAL PROBABILITY. KIEL, IN A SOMEWHAT INTERNALLY INCONSISTENT FORECAST, LOOKS FOR 1.5 PERCENT GROWTH. (DAVID GROVE, THE IBM ECONOMIST WHO HAPPENED TO BE IN GERMANY RECENTLY, TOLD AN EMBOFF THAT HIS FIRM HAS PROJECTED 0.8 PERCENT REAL GNP GROWTH IN 1976 FOR THE COUNTRY, BUT ON THE BASIS OF CURRENT INFORMATION FEELS THIS MIGHT BE ON THE HIGH SIDE.) BY COMPARISON THE

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GOVERNMENT FORECAST 2 PERCENT GROWTH IN ITS ANNUAL ECONOMIC REPORT.

4. THE KIEL INSTITUTE FORECAST WAS THE CENTERPIECE OF A CONFERENCE ATTENDED BY SEVERAL REPRESENTATIVES OF GERMAN BUSINESS, INDUSTRIAL AND BANKING INTERESTS, ALL OF WHOM REGARDED IT IN THE MOST SCEPTICAL OF TERMS. THEIR SEAT-OF-THE-PANTS INTUITIVE JUDGMENT WAS THAT KIEL ERRED

GREATLY ON THE SIDE OF OPTIMISM SINCE THEY COULD SEE NO  
SIGNS IN THEIR OWN OPERATIONS THAT GROWTH OF THE PREDICTED M  
MAGNITUDE WAS POSSIBLE THIS YEAR.

5. THE MOST PESSIMISTIC OF THE INSTITUTES, BERLIN, TOLD  
THE EMBOFF THAT DESPITE THE LIKLIHOOD OF ZERO GNP GROWTH  
IN 1975 IT DID NOT FEEL THAT FURTHER GOVERNMENT  
EXPANSIONARY STEPS WERE NECESSARY. (IT WAS OBSERVED AT  
KIEL THAT "FISCAL DISASTER" IS A CATCHWORD IN THE  
BUNDESTAG AND THEREFORE NO MORE FISCAL MEASURES CAN BE  
CONTEMPLATED BY THE GOVERNMENT IN TERMS OF FURTHER  
STIMULATING THE ECONOMY.) THE BERLIN INSTITUTE EXPERT  
WAS, HOWEVER, EXTREMELY WORRIED ABOUT THE LOSS OF VIGOR  
IN EXPORTS WHICH ARE CURRENTLY DECLINING IN REAL TERMS

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O R 151353Z APR 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9401

INFO USMISSION OECD PARIS IMMEDIATE

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

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AMCONSUL BREMEN

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AMCONSUL FRANKFURT  
AMCONSUL HAMBURG  
AMCONSUL MUNICH  
AMCONSUL STUTTGART  
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AT A MINUS 10 PERCENT ANNUAL RATE. (NEW EXPORT ORDERS IN VOLUME TERMS ARE DROPPING AT A 15 PERCENT ANNUAL RATE.) CONTINUING DOWNWARD REVISIONS FOR PROSPECTIVE GNP GROWTH AMONG GERMANY'S TRADING PARTNERS DOES NOT BODE WELL FOR THE FUTURE EITHER. PROLONGATION OF THIS TREND, HE SAID, LEADS HIM TO THE POSITION THAT NEGATIVE  
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GNP GROWTH IN GERMANY FOR THE YEAR 1975 SHOULD NOT BE EXCLUDED. HE WAS QUITE WORRIED ABOUT THE EFFECTS OF THE U.S. ECONOMIC DOWNTURN ON GERMANY NOT ONLY IN TERMS OF ITS DIRECT INFLUENCE ON GERMANY'S EXPORTS TO THAT MARKET BUT ALSO INDIRECTLY SINCE MANY OF GERMANY'S TRADING PARTNERS' EXPORTS ARE ALSO HEAVILY DEPENDENT UPON THE U.S. MARKET.

6. THE ECONOMIC UPTURN IN GERMANY WAS EXPECTED BY ALL THE INSTITUTES TO TAKE PLACE SOME TIME IN THE SECOND HALF, PROBABLY OCTOBER OR NOVEMBER (KIEL THOUGHT SLIGHTLY EARLIER). THE INDICATOR BY WHICH THIS UPTURN IS MEASURED, THEY ALL SAY, IS CAPACITY UTILIZATION. IN JANUARY, THE LAST DATE WHEN IT WAS MEASURED, THE UTILIZATION FIGURE STOOD AT 76 PERCENT, WHICH WAS THE APPROXIMATE LOW POINT DURING THE 1966-67 RECESSION, AND SOME 7 PERCENTAGE POINTS BELOW ONE YEAR AGO. THE NORMAL FIGURE FOR A HEALTHY ECONOMY IN GERMANY IS CONSIDERED TO BE 85 - 90 PERCENT. ECONOMIC ACTIVITY IN SEASONALLY ADJUSTED TERMS IS SEEN AS LEVELING OUT IN THE SECOND QUARTER OF 1975 AFTER HAVING BEEN ON A CONTINUED DECLINE SINCE MID-1974, WHILE AN UPTURN IS EXPECTED TO BEGIN TO GET UNDER-WAY IN THE THIRD OR FOURTH QUARTER. THERE ARE SOME TENTATIVE FORWARD SIGNS OF RECOVERY NOW BECOMING NOTICEABLE TO SOME OBSERVERS. THE MOST IMPORTANT OF THESE SIGNS THESE OBSERVERS FEEL, ARE TO BE READ IN NEW INDUSTRIAL ORDERS RECEIVED FOR INVESTMENT GOODS FROM DOMESTIC SOURCES IN THE LAST THREE MONTHS. AS OF YET THERE IS NO SIGN OTHER THAN IN THE AUTOMOBILE INDUSTRY THAT CONSUMER DEMAND IS REVIVING. WHILE ALL AGREED IT WOULD NOT BE AN EXPORT LED RECOVERY, THERE WAS MUCH DISCUSSION AS TO WHETHER THE REVIVAL WAS TO BE

STIMULATED BY CONSUMERS OR INVESTORS. FROM THE TABLE WHICH ACCOMPANIES THIS CABLE, IT WILL BE SEEN THAT BOTH ARE WEAK IN 1975.

7. RANGE OF GERMAN ECONOMIC INSTITUTES' PRELIMINARY FORECASTS -- PERCENTAGE CHANGES OVER PREVIOUS YEAR IN REAL (1962) TERMS (UNLESS OTHERWISE NOTED)

1975

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PRIVATE CONSUMPTION	0 TO 3
PUBLIC CONSUMPTION	1 TO 3
FIXED INVESTMENT	MINUS 2.5 TO MINUS 1.5
CHANGES IN STOCKS (BIL. DM)	2.5 TO 3.5)
NET FOREIGN BALANCE (BIL. DM)	35 TO 49 (NOMINAL)
	27 TO 32.5 (REAL)
EXPORTS OF GOODS AND SERVICES	0 TO 2
IMPORTS OF GOODS AND SERVICES	2.5 TO 4
GNP (IN CONSTANT PRICES)	0 TO 1.5
GNP DEFLATOR	6 TO 7.3

8. ALL THE INSTITUTES, WITH THE EXCEPTION OF KIEL, EXPECT UNEMPLOYMENT TO AVERAGE 4 PERCENT DURING 1975. (THE FEBRUARY 1975 SEASONALLY ADJUSTED UNEMPLOYMENT RATE

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O R 151353Z APR 75  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 9402  
INFO USMISSION OECD PARIS IMMEDIATE  
AMEMBASSY PARIS  
AMEMBASSY LONDON  
AMEMBASSY ROME  
USMISSION EC BRUSSELS  
AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
AMCONSUL FRANKFURT  
AMCONSUL HAMBURG  
AMCONSUL MUNICH  
AMCONSUL STUTTGART  
USMISSION USBERLIN

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WAS 3.6 PERCENT). THIS CONTRASTS WITH THE GOVERNMENT'S PUBLIC FORECAST OF 3 PERCENT. ON THE OTHER HAND, THE INFLATIONARY EXPECTATIONS OF BOTH THE INSTITUTES AND THE GOVERNMENT AS MEASURED BY THE GNP DEFLATOR ARE MORE OR LESS IN LINE AT 6 TO 7 PERCENT.

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9. THE REPRESENTATIVES FROM THE INSTITUTES WILL TRAVEL TO BONN APRIL 28 FOR THE PRESS CONFERENCE THAT WILL MAKE PUBLIC THEIR JOINT FORECAST FOR 1975. GIVEN THE GOVERNMENTAL PRESSURES PLUS THE NEED TO STRIKE A COMPROMISE AMONGST THEMSELVES, THE LIKELY OUTCOME WILL BE A 1 PERCENT REAL GNP GROWTH FORECAST FOR 1975. THEY WILL PRIVATELY MEET AT THE GOVERNMENT'S REQUEST TO GIVE THEIR TENTATIVE THINKING ON 1976 GROWTH PROSPECTS. IFO TOLD THE EMBOFF THAT A CONSERVATIVE VIEW WOULD HAVE NEXT YEAR'S REAL GROWTH AT 4 PERCENT, WITH 5 PERCENT THE LIKELY PROBABILITY AND 6 PERCENT A TOPSIDE FIGURE. HAMBURG WAS THINKING OF A 5 TO 5.5 PERCENT GROWTH RATE. KIEL FORECASTS AT LEAST 7 PERCENT GROWTH. BEING THE ECONOMIC DETERMINISTS THAT THEY ARE, THE INSTITUTES FEEL THAT SUCH TIMING AND GROWTH VIRTUALLY ASSURE HELMUT SCHMIDT'S REELECTION NEXT YEAR.

HILLENBRAND

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